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¶1. (U) Summary. This is Volume 8, issue 37 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- Reserves Fall on Gold Revaluations
- Business Confidence Plunges Further
- SA Leaps in Business-Friendly Rankings
- Old Mutual CEO Quits on U.S. Subprime Loss
- Light on Distant Horizon for Cargo Transport between South Africa and Maputo
- Carmakers Poised to Shift Maritime Transport Focus to Maputo
- Johannesburg Signs MOU for Bus System
- Limpopo Chosen for Coal-to-Liquids Project
- Mining Production Declines
- Slow Pace of Mining Right Conversions Worries Government
- Death is Stalking the Workplace
- Government Seeks ICT Advice
- ICASA Moves to Issue New Licenses
- Cable-laying Company to Profit from ICASA Decision to Issue New Licenses
- SA Firm Acquires Stake in Indian Distributor

End Summary.

Reserves Fall on Gold Revaluations

¶2. (U) South Africa's net gold and foreign exchange reserves fell by $669 million (2%) to $33.5 billion in August 2008. The decline is attributed to the depreciation of the Rand and a sharp decline in the price of gold, and not due to intervention practices. The gold price is continuing to trade at lower levels indicating the potential for further declines in reserves, should current levels persist at the end of September. Due to the decline in net reserves and the growth in imports, South Africa's import coverage has declined from 5.5 to 4.0 weeks of import coverage. (ABSA Newsletter, September 9, 2008)

Business Confidence Plunges Further

¶3. (U) The Rand Merchant Bank and Bureau for Economic Research

(RMB/BER) Business Confidence Index declined by a further 11 index points during the third quarter of 2008, after falling 22 index points in the first half of 2008. Business confidence declined in all five sectors covered by the index during the third quarter, while it declined in only two of the five sectors during the second quarter survey. "The persistent decline in business confidence is another indication that the second quarter rebound in GDP growth was a mere technical recovery following the negative impact electricity outages had on the mining and manufacturing sectors during the first quarter. The large third quarter drop in confidence indicates that the underlying economic slowdown has become even more marked. However, as interest rates have probably already peaked, and are likely to start declining in the first half of next year, and as the oil price has fallen by nearly one third, an outright contraction in economic activity is unlikely," said the survey analysts. The RMB and BER researchers noted that most businesses found themselves squeezed between rapidly rising costs and weak domestic and foreign demand. The domestic political environment also remained a source of uncertainty and concern for business confidence. (Business Day, September 11, 2008)

SA Leaps in Business-Friendly Rankings

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¶4. (U) The World Bank's annual Doing Business Index found that South Africa's efforts to make it easier for businesses to start-up and pay taxes have lifted its ranking from 35 to 32 out of 181 countries. South Africa ranked 28 in 2005, but fell behind economies that were faster to reform in recent rankings. The index tracks how business friendly the regulatory environment is in each country, especially for small and medium-sized businesses. It is based on 10 indicators, which measure the time and cost required to start and operate a business, trade across borders, pay taxes, and

close a business. South Africa's recovery in the rankings is attributed to the Companies Act Amendments, which made it easier to register a new business. The removal of the regional services council levies and the reduction in the rate of secondary tax on companies also helped. South Africa is ranked second in the world on ease of getting credit. It also ranks well for protecting investors and paying taxes, but is ranked very low for ease of employing workers and trading across borders. (Business Day, September 11, 2008)

Old Mutual CEO Quits on U.S. Subprime Loss

¶5. (U) Old Mutual CEO Jim Sutcliffe became South Africa's first sub-prime casualty when he resigned amid large write-downs and urgent cash injections linked to the insurer's U.S. Life business. U.S. Life recently reported that a product from its Bermuda unit had incurred liabilities and had been withdrawn. A downgrade of Freddie Mac and Fannie Mae bonds tipped the scale for Old Mutual. It was holding bonds through one of its affiliates, and recorded a write-down of $135 million. Old Mutual's Head of Skandia business Julian Roberts was immediately named as the replacement, but Old Mutual's stock dropped 8%, when the news first broke. No other South African companies have reported crises related to the sub-prime crisis yet. Investec said it had "absolutely no exposure to Fannie Mae and Freddie Mac". Nedbank, which is owned by Old Mutual, said it had no exposure and that its parent company's woes would not affect it. (Business Day, September 11, 2008)

Light on Distant Horizon for Cargo Transport
between South Africa and Maputo

¶6. (U) Maputo Development Corridor (MDC) Director Blessing Manale announced that an agreement between South Africa and Mozambique regarding the movement of cargo between the two countries moved forward this week. Finalization of an agreement is crucial to the

development of the Port of Maputo in Mozambique. Manale indicated that the negotiations, which began three-years ago, should be finalized by September 2009. He noted that the South African Department of Transport has been recruited to push state-owned transport and logistics group Transnet towards a final agreement. The agreement to improve the exchange of cargo at the common border between the two countries relies on speeding up rail transport, which is controlled by Transnet. Industry analysts blame the delay on Transnet's ability to negotiate due to the fact that it also has vested interests in South African ports. (Port and Ship News, September 5, 2008)

Carmakers Poised to Shift Maritime
Transport Focus to Maputo

¶7. (U) The construction of a $30 million car terminal at the Port of Maputo comes as Transnet rejected a proposal to build a new R2.6 billion ($325 million) car terminal at the Port of Durban last month. Transnet opted instead for a R460 million ($57 million) expansion of its existing car terminal in Durban. Shipping
Qexpansion of its existing car terminal in Durban. Shipping
specialist Grindrod emphasized that the expansions at Maputo do not compete with Durban, as "all ports are choking at the moment." He added that expansions were needed in both South Africa and Mozambique. The Port of Maputo is roughly the same distance from Gauteng as the Port of Durban, which currently handles most of South Africa's vehicle imports and exports. Grindrod has just completed the first phase of its Maputo car terminal, which will have a capacity to handle 50,000 to 60,000 vehicles a year. Further expansions could raise the potential capacity to 250,000 units a year. "We're talking to (manufacturers), especially Rosslyn-based (Gauteng Province) companies to do their vehicle exports and imports through Maputo," said Grindrod Freight Division Director Dave Rennie. He noted that the first South Africa-based manufacturer will transport its vehicles through Maputo starting October, but declined to name the manufacturer. Trials have been run to test the corridor, which includes a recently up-graded rail-link to Maputo. Other projects at the Port of Maputo include a $50 million expansion of the coal terminal and the development of a bulk-liquid facility.

The coal terminal will be expanded to an export capacity of six-million tons of coal a year. Grindrod CEO Alan Olivier believes it would be possible for the port to move eight-million tons of goods in 2008, compared to six-million tons in 2007. Grindrod increased its shareholding in the consortium that manages the Port of Maputo from 12% to 25% last year. The Mozambique government controls 50%, and the remaining 25% is held by Dubai Port World. (Engineering News, September 8, 2008)

Johannesburg Signs MOU for Bus System

¶8. (U) The City of Johannesburg and bus operators Johannesburg Metropolitan Bus Services (Metrobus) and Putco signed a memorandum of understanding (MOU) outlining the framework for the first phase of the planned Rea Vaya bus-rapid transit (BRT) system. The city aims to have 43 new buses move along the BRT system's newly-widened streets by the time the FIFA Confederations Cup kicks-off in June ¶2009. Johannesburg Mayor Amos Masondo said engagement with operators was vital to the timely and successful implementation of the BRT system, which would "vastly improve" the city's public transport. The city confirmed that the BRT system would be available to provide bus services for the Confederations Cup, concentrating on areas that would ensure that the BRT could provide services around and between the key soccer stadia, as well as looking to satisfy the need for enhanced public transport for commuters travelling from Soweto and surrounding areas. (Engineering News, September 10, 2008)

Limpopo Chosen for Coal-to-Liquids Project

¶9. (U) Coal-to-Liquids (CTL) champion Sasol has selected a coalfield in the western part of Limpopo province as part of its pre-feasibility study into the proposed Mafutha CTL project. Sasol and the Industrial Development Corporation may need to find up to $16 billion to construct the 80,000 barrel-per-day project, according to a Sasol spokesperson. One analyst described this figure as "crazy", noting that it would cost one-half this amount for a comparable facility under investigation in China. An anonymous analyst did not expect Mafutha to proceed as it appeared that Sasol had agreed to investigate the project as a result of the Treasury's inquiry into a possible windfall tax on the company. Sasol announced that its operating profit soared 32% to a record $4 billion in 2007. The energy security master plan released last September shows that the state has ambitions to meet 50% of local liquid fuels demand through synthetic production from coal and gas (currently 35%). Sasol is taking steps to reduce its emission and carbon footprint, given its ignoble label as the world's largest single-point source of greenhouse gases. (Engineering News and Business Report, September 8-11, 2008)

Mining Production Declines

¶10. (U) Statistics South Africa (StatsSA) reported that total mining production for the third quarter of 2008 decreased by 6.6% compared to the third quarter of 2007. The total mining production for the Qto the third quarter of 2007. The total mining production for the month of July 2008 decreased by 12.6% compared with July 2007. Gold production decreased by 16.4%. The platinum group metals recorded a large decrease in actual production of 32.8% compared with July ¶2007. StatsSA said the platinum group decline was mainly attributable to deferred maintenance, whichQd normally have occurred in the first half of the year. (Business Day, September 11, 2008)

Slow Pace of Mining Right Conversions
Worries Government

¶11. (U) Department of Minerals and Energy (DME) Minister Buyelwa Sonjica reiterated her concern for the "snail's pace of mining rights conversions," with less than envisaged progress towards attainment of the objectives of the South Africa's Mining Charter to date. "Less than 30 % of old-order mining rights have been

submitted to my department for conversion. While the Mineral and Petroleum Resources Development Act (MPRDA) provides for security of tenure, submissions close to the deadline of April 30, 2009 will create unnecessary bottlenecks in processing of applications," she said in her address at the South African Mining Summit in Johannesburg. The summit convened stakeholders to discuss issues of transformation in preparation for review of the Mining Charter in ¶2009. "Failure to convert will not be without consequences," she warned. Sonjica asserted that only a few of the empowerment transactions embraced "the true spirit of broad-based black economic empowerment (BEE)". The Minister also urged the mining houses holding mining rights to find more meaningful ways of participating and consulting with their local communities, expressing worries about tension between mining companies and the communities where they operated. Sonjica said DME had constituted a task team to investigate reports of disinvestment in the mining sector. Preliminary findings cited negative factors as: a lack of infrastructure capacity; a paucity of skills; non-proximity of the country to new markets, typically the Far East; introduction of the new mining legislative framework, which created some investor uncertainty; and currency fluctuations. The Minister claimed the government had taken many steps to address these challenges. (Mining Weekly and Business Day, September 10, 2008)

Death is Stalking the Workplace

¶12. (U) Unions have launched a series of costly one-day protests against a spate of fatalities in the mining, construction, and manufacturing industries - but they say the government shares the blame because it does not have enough safety inspectors. National Union of Mineworkers President Senzeni Zokwana struck hit out at mining companies during a health and safety summit on September 5. The death of a miner at DRD Gold's Blyvoor mine the day before took the death toll in South Africa's mines this year to 116, only slightly below the pace of last year's fatalities. Minister Sonjica said mine safety audits ordered by President Mbeki earlier this year had been completed and would be released after being presented to the President. A mining industry expert said the audit was not serious, reflecting skills shortages at the ministry. Official figures for deaths in other industries are not available, but a steady stream of fatal accidents on construction sites and in factories has been reported. (Sunday Times, September 7, 2008)

Government Seeks ICT Advice

¶13. (U) Appointments of a raft of advisers are expected to help South Africa utilize ICT more effectively. The announcement follows a three-day meeting between President Thabo Mbeki and his Presidential International Advisory Council on Information Society and Development, which ended on August 7. The council is a high-level panel made up of 23 advisors, including representatives from SAP, Microsoft, Nokia, Oracle, and HP. Mbeki said: "The establishment of the council is born from the fact that there is a
Qestablishment of the council is born from the fact that there is a lack of a coordinated, coherent and integrated approach for addressing the ICT skills shortage at all levels in the country." The meeting focused on developments in ICT and reviewed progress in areas such as e-government, education, and health. A new, local CEOs' forum is expected to help implement decisions taken by the advisory council, now in its seventh year of existence. In addition, advisers would work with the Department of Trade and Industry's Trade and Investment South Africa Division to ensure that South Africa improves its ICT investment. A scorecard would be developed to measure progress against set goals. Mbeki said "as government, service providers and operators we need to look into innovative approaches to expand connectivity in rural areas." The country's readiness to host the 2010 FIFA World Cup was also discussed. The country is expected to spend between R2 billion and R5 billion ($250-625 million) on ICT infrastructure for the games. This would include event management systems with software to manage the accreditation of delegates, as well as transportation, travel, and protocol systems. (Business Day and Engineering News, September 8, 2008)

ICASA Moves to Issue New Licenses

¶14. (U) ICT regulator Independent Communications Authority of South Africa (ICASA) has begun issuing new licenses that will permit operators to build their own networks. The announcement comes just a week after ICASA lost a legal case that opened the sector up to increased competition. ICASA will hand out two types of licenses to replace those that became defunct when the Electronic Communications Act was promulgated in 2005. The most valuable version should ultimately be issued to about 300 internet service providers and other voice and data carriers, thanks to a court case instigated by Altech. ICASA said it would not challenge the high court verdict, which declared that every company holding an old Value Added Network Services (VANS) license was entitled to build its own network. The verdict was a rebuke for ICASA and Department of Communications Minister Ivy Matsepe-Casaburri, since they were planning to reserve the network-building licenses for a handful of select players. Altech's triumph heralds a new level of competition and the promise of cheaper calls, as the companies will no longer be forced to lease their facilities from Telkom. ICASA said it was now ready to issue the new licenses. However, only 27 companies were included in the

initial list to collect the two types of licenses; one letting them build their own networks and the other letting them offer electronic communications services. Those companies can also collect a separate license giving them access to the spectrum they need in order to operate. ICASA spokesman Sekgoela Sekgoela said this was the first part of a process that would eventually reach all players. ICASA would issue a further notice "in due course" with regard to the outstanding licenses for those not among the first batch, he noted. Telkom, Neotel, and the cellular operators can collect their converted licenses only after ICASA has finalized how much it intends to charge them in license fees. Industry analysts have criticized ICASA for the delay in finalizing the fees structure. Although hundreds of companies will technically have the right to construct their own networks, only a dozen or so will be able to afford the estimated R1 billion ($125 million) it would cost to roll out a national infrastructure. However, just holding a license to build their own networks will give them substantially more clout in negotiating the cost of leasing their facilities from the incumbent players. (Business Day, September 8, 2008)

Cable-laying Company to Profit from ICASA
Decision to Issue New Licenses

¶15. (U) Cable-laying company Dark Fibre Africa sold a 10% stake in its business to Absa Capital. Absa would not comment on the value of the 10% stake, but said the amount is separate from the R950 million ($118 million) pledged by Absa to help Dark Fibre grow its business. Dark Fibre focuses on the unglamorous part of the ICT sector, which involves digging up roads and laying cables. Its prospects have been raised by the Independent Communications Authority of South Africa's (ICASA) decision to heed a court ruling QAuthority of South Africa's (ICASA) decision to heed a court ruling and grant additional ICT licenses, which will allow Value Added Network Services (VANS) to build their own ICT networks and infrastructure. These VANS may hire Dark Fibre Africa to do the dirty work if they decide to take advantage of the ICASA decision. The company plans to invest R2 billion ($250 million) on rolling out broadband infrastructure to sell or operate for multiple ICT players. Absa Capital spokesman Sollie Nortj said Dark Fibre Africa was South Africa's only fiber-optic specialist to use trenching technology that installed cables up to three times faster than traditional methods. Dark Fibre's plans include entering other lucrative African countries with a lack of ICT infrastructure. (Business Day, September 11, 2008)

SA Firm Acquires Stake in Indian Distributor

¶16. (U) South Africa-based ICT group Datatec has acquired a 50.01% stake in India-based ICT distribution business Inflow Technologies. The stake in Inflow provides Datatec with an entry point and initial footprint in India. Inflow has a presence in nine key Indian cities and has operations in Sri Lanka and Singapore. Datatec CEO Jens Montanana said: "India is a very large and fast growing market offering strong prospects in our sector with a lower cost of entry compared to many other developing markets and potentially higher

returns and greater organic investment opportunities." He added that investment in Inflow is another step in Datatec's strategy to increase its exposure to the world's major emerging markets. (Engineering News, September 11, 2008)

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